

**annual
report
1978**

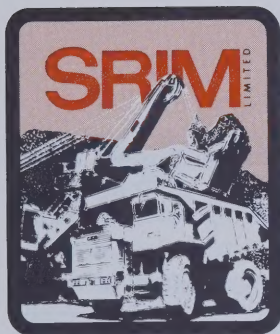


Steep Rock Iron Mines Limited

Front Cover Photograph

View looking west showing the pellet plant in the foreground, the Hogarth pit in the centre, and the west arm of Steep Rock Lake in the background.

PHOTO BY R. O. STARK



BOARD OF DIRECTORS

- MORTIMER S. BISTRISKY
Montreal, Quebec
CHARLES J. CARTER
Thunder Bay, Ontario
† GERALD R. HEFFERNAN
Whitby, Ontario
† RICHARD M. HOGARTH
Willowdale, Ontario
* LAURENCE J. LAMB
Atikokan, Ontario
WILLIAM MOODIE
Montreal, Quebec
* PETER M. NIXON
Sault Ste. Marie, Ontario
† JOHN N. PATERSON
Thunder Bay, Ontario
* W. JOHN STENASON
Montreal, Quebec
* LOUIS ZUCCHIATTI
Atikokan, Ontario

* Member of the Executive Committee

† Member of the Audit Committee

HONORARY CHAIRMAN

MARK T. McKEE
Oxford, Connecticut

OPERATIONS AND EXECUTIVE OFFICES

Atikokan, Ontario

OFFICERS

JOHN N. PATERSON
Chairman of the Board
LAURENCE J. LAMB
President & Chief Executive Officer
LOUIS ZUCCHIATTI
Vice President Finance & Secretary
PETER M. NIXON
Vice President
W. JOHN STENASON
Vice President
JOHN P. DUGGAN
Controller & Assistant Secretary
GORDON S. MacLEAN
Assistant Secretary

AUDITORS

CLARKSON, GORDON & CO.
Thunder Bay, Ontario

TRANSFER AGENTS

CROWN TRUST COMPANY
Toronto, Ontario
and
BANK OF MONTREAL TRUST COMPANY
New York, N.Y.

GENERAL COUNSEL

JOHN A. CAMPBELL
Toronto, Ontario

CONSULTING GEOLOGIST

M. W. BARTLEY
Thunder Bay, Ontario

GENERAL MANAGER

BRUCE W. TAYLOR

DIVISION MANAGERS

ALWYN K. BAYLES, *Metallurgical*
JOHN P. DUGGAN, *Accounting*
H. EDWIN JACKSON, *Employee Relations and Assistant to the President*
COLIN F. MacIVER, *Mining*
LEON J. PERRIER, *Maintenance and Services*

ANNUAL MEETING

The Annual Meeting of the Shareholders of Steep Rock Iron Mines Limited will be held in the Upper Canada Room (18th floor) of the Royal York Hotel, Toronto, Ontario on April 10, 1979 at 2:00 p.m.

PRESIDENT'S LETTER TO THE SHAREHOLDERS

Net earnings for 1978 were \$6,032,109, a \$1,466,332 improvement over 1977. Total shipments for the year were 1,324,286 tons, mainly in the form of iron oxide pellets to The Algoma Steel Corporation, Limited.

The major reasons for the improved earnings include the continued smooth operation throughout the year and the effect of the exchange rate of the Canadian dollar to the United States dollar. All pellet and royalty revenues are based on U.S. currency values. There were two increases in the price of iron ore pellets, 5.2 per cent in April and a further 4.2 per cent in September. The financial statements for 1978 have been prepared on the basis of an accelerated write-off through 1979, as has been the case since 1975. Some provisions for termination costs have also been made in the 1978 statements.

Working capital improved substantially by \$12,311,585 to \$37,065,245 at year end.

Employment averaged 571 employees during the year. There was a continued emphasis on safety with some positive results. The Mining Division worked the entire year without a disabling injury. A two-year collective agreement terminating April 30, 1980 was negotiated with the United Steelworkers of America. Included in the new agreement were improvements in wages, severance pay, and pension benefits.

Mining operations were completed early in 1979, when economically recoverable ore reserves were exhausted. The pellet plant will continue to operate until August. Every effort has been made, through advance notice to the employees and relocation efforts, to ease personal dislocation. Discussions are being held with Government officials to ensure compliance with all environmental and other regulations pertaining to the mine closure.

As stated in last year's report, Caland Ore Company Limited has advised Steep Rock that it will terminate its lease on the "C" orebody at the end of 1979. This will result in lower royalties in 1979.

It is expected that termination of operations and the reduced royalties will lead to lower earnings in 1979.

During 1977, Steep Rock examined the feasibility of developing an iron oxide deposit at Bending Lake, 40 air miles northwest of Atikokan. Unfortunately, due to an iron ore surplus in the Great Lakes region, it was not possible to proceed with the Bending Lake Project at that time. Similar iron ore surplus conditions still exist. However, a three-year extension of the Bending Lake property option has been negotiated and it is intended to keep the present pellet plant intact so that the Company can proceed with the project under favorable market and economic conditions.

The Board of Directors has been giving careful consideration to the future of Steep Rock. Numerous acquisition possibilities have been examined and rejected. This examination will continue. As indicated previously, there is a reasonable possibility that the Bending Lake Project will move forward at some time in the future. Accordingly, it has been decided that Working Capital will be kept intact so that the resources of the Company will be available for future development. The senior management of the Company will be relocated to Toronto later this year.

Mr. Neil Edmonstone did not stand for re-election to the Board of Directors at the Annual Meeting in April. Mr. Edmonstone joined the Company in 1943 and in his positions as Secretary-Treasurer, Vice President, President, and Director, played a very significant role in the development of the Company as well as all of Northwestern Ontario. His dedication and loyalty to Steep Rock was second to none. It was my pleasure to work closely with Neil for nine years. I thank him for his wise counsel and guidance. Mr. Richard Hogarth, who previously served as a Director, was re-elected to that position.

The appreciation of Management is again extended to the employees of Steep Rock for their significant contribution during 1978. The direction to Management of the Board of Directors is also noted with appreciation.

L. J. LAMB

PRESIDENT

AND

CHIEF EXECUTIVE OFFICER

FEBRUARY 15, 1979

CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 1978

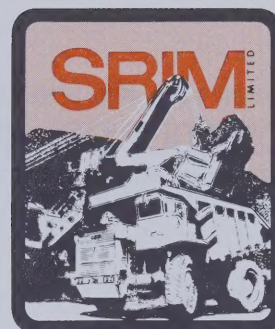
(WITH COMPARATIVE FIGURES AT DECEMBER 31, 1977)

ASSETS

	1978	1977
CURRENT		
Cash and deposit certificates	\$25,309,628	\$13,438,836
Short-term investments, at cost which approximates market value	8,331,508	3,833,960
Accounts receivable		
Algoma Steel Corporation (affiliated company) for ore produced (Note 1(b))	3,475,124	6,535,218
Other	2,278,264	585,476
Ore inventory, at the lower of cost or net realizable value	9,089,581	4,505,766
Supplies, at cost	1,343,831	1,701,873
Prepaid expenses	279,116	185,492
Total current assets	50,107,052	30,786,621
FIXED ASSETS AND HOUSING		
Mining properties at Atikokan (Notes 1(d), 2 and 4(a))	4,386,393	4,386,393
Less accumulated depletion	4,266,346	3,799,882
	120,047	586,511
Plant, buildings and equipment, at cost (Notes 1(d) and 2)	50,780,118	51,583,705
Less accumulated depreciation	48,008,948	44,024,914
	2,771,170	7,558,791
Housing		
Properties owned, at cost less accumulated depreciation (1978 — \$685,014; 1977 — \$605,055) (Note 1(d))	502,646	551,062
Mortgages and sale agreements receivable	66,986	110,079
	569,632	661,141
Total fixed assets and housing	3,460,849	8,806,443
OTHER ASSETS AND DEFERRED CHARGES		
Deferred overburden removal costs (Notes 1(d) and 4(b))	2,435,022	8,407,254
Deferred development expenditures		
Atikokan (Notes 1(d), 2 and 4(c))	942,165	2,744,230
Lake St. Joseph (Note 4(c))	1,184,208	1,385,999
Bending Lake (Note 4(c))	798,492	696,373
Investment in other mining company (Note 5)	116,483	231,483
Sundry	195,538	140,605
	5,671,908	13,605,944
	<u>\$59,239,809</u>	<u>\$53,199,008</u>

(See notes to consolidated financial statements)

$$\begin{array}{r}
 \$4.50 \\
 8 \overline{) 37.0} \\
 \underline{32} \\
 5.0
 \end{array}$$



LIABILITIES AND SHAREHOLDERS' EQUITY

	1978	1977
CURRENT		
Accounts payable and accrued liabilities	\$ 2,749,107	\$ 3,193,524
Accrued interest	38,171	50,906
Provision for termination costs (Note 2)	1,380,000	—
Income and other taxes payable	1,219,000	—
Current instalments of mortgage bond principal (1978 — U.S. \$6,438,000; 1977 — U.S. \$2,548,000)		
(Notes 1(c) and 6)	7,635,468	2,788,531
Mortgages payable on employee housing	20,061	—
Total current liabilities	<u>13,041,807</u>	<u>6,032,961</u>
NON-CURRENT OR DEFERRED		
6% First mortgage sinking fund bonds, Series A, due December 1, 1981 — U.S. \$6,755,000 (Notes 1(c) and 6)	—	6,923,875
Mortgages payable on employee housing	—	33,447
Provision for termination costs (Notes 2 and 8(b))	628,672	471,504
Advance payments received on sale of interest in mining properties (Note 4(c))	—	200,000
	<u>628,672</u>	<u>7,628,826</u>
SHAREHOLDERS' EQUITY		
Capital		
Authorized		
10,000 — preference shares of \$100 each		
10,666,666 — common shares of \$1 each		
Issued		
8,063,652 — common shares	8,063,652	8,063,652
Contributed surplus	3,674,675	3,674,675
Retained earnings (Note 6)	33,831,003	27,798,894
Total shareholders' equity	<u>45,569,330</u>	<u>39,537,221</u>
 On behalf of the Board		
L. J. Lamb, Director	<u>\$59,239,809</u>	<u>\$53,199,008</u>
R. M. Hogarth, Director		

STEEP ROCK IRON MINES LIMITED

CONSOLIDATED STATEMENT OF EARNINGS

YEAR ENDED DECEMBER 31, 1978

(WITH COMPARATIVE FIGURES FOR 1977)

	<u>1978</u>	<u>1977</u>
INCOME		
Gross operating revenues		
From production for Algoma Steel Corporation (Note 1(b))	\$39,900,497	\$35,633,371
Other sales revenue	<u>195,034</u>	<u>2,622,058</u>
	40,095,531	38,255,429
Royalty income (Note 3)	7,082,464	4,916,049
Investment income	2,343,335	1,033,702
Gain on disposal of fixed assets	<u>33,179</u>	<u>12,913</u>
	<u>49,554,509</u>	<u>44,218,093</u>
COSTS AND EXPENSES		
Operating costs, other than those shown below	30,743,242	30,414,682
Administrative and corporate expenses	1,076,029	1,144,810
Interest on bonds	627,637	777,170
Depreciation (Note 2)	4,855,295	5,096,564
Depletion (Note 2)	466,464	326,315
Amortization of deferred development expenditures (Note 2)	1,802,065	1,593,586
Provision for termination costs	1,537,168	157,168
Sundry exchange losses	1,092,500	142,021
Write-down of investment in other mining company	<u>115,000</u>	<u>—</u>
	<u>42,315,400</u>	<u>39,652,316</u>
EARNINGS before income taxes and extraordinary item	7,239,109	4,565,777
Income taxes (Note 7)	<u>3,580,000</u>	<u>1,813,000</u>
EARNINGS before extraordinary item	3,659,109	2,752,777
EXTRAORDINARY ITEM		
Income tax credit arising from carry forward of prior years' write-offs	<u>2,373,000</u>	<u>1,813,000</u>
NET EARNINGS for the year	<u>\$ 6,032,109</u>	<u>\$ 4,565,777</u>
PER SHARE		
Earnings before extraordinary item	<u>\$0.45</u>	<u>\$0.34</u>
Net earnings for the year	<u>\$0.75</u>	<u>\$0.57</u>

(See notes to consolidated financial statements)

STEEP ROCK IRON MINES LIMITED

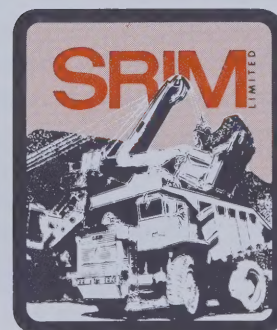
CONSOLIDATED STATEMENT OF RETAINED EARNINGS

YEAR ENDED DECEMBER 31, 1978

(WITH COMPARATIVE FIGURES FOR 1977)

	<u>1978</u>	<u>1977</u>
Balance, beginning of year	\$27,798,894	\$23,233,117
Add net earnings for the year	<u>6,032,109</u>	<u>4,565,777</u>
Balance, end of year	<u>\$33,831,003</u>	<u>\$27,798,894</u>

(See notes to consolidated financial statements)



CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

YEAR ENDED DECEMBER 31, 1978

(WITH COMPARATIVE FIGURES FOR 1977)

	1978	1977
SOURCE OF FUNDS		
From operations		
Earnings before extraordinary item	\$ 3,659,109	\$ 2,752,777
Add (deduct) items not affecting working capital		
Depreciation	4,855,295	5,096,564
Depletion	466,464	326,315
Amortization of deferred development expenditures	1,802,065	1,593,586
Net reduction of deferred overburden removal costs	5,972,232	693,696
Gain on disposal of fixed assets	(33,179)	(12,913)
Non-current provision for termination costs	157,168	157,168
Income tax credit arising from carry forward of prior years' write-offs	2,373,000	1,813,000
Write-down of investment in other mining company	115,000	—
Total funds from operations	19,367,154	12,420,193
Sale of fixed assets	105,706	85,205
Decrease in mortgages and sale agreements receivable	61,159	41,794
	<u>19,534,019</u>	<u>12,547,192</u>
APPLICATION OF FUNDS		
Development expenditures		
Bending Lake	102,119	572,648
Lake St. Joseph	(1,791)	19,945
Additions to fixed assets and housing	109,851	268,168
Long-term debt paid or included in current liabilities		
Mortgage bonds	6,923,875	2,932,525
Mortgages payable	33,447	36,157
Other	54,933	(18,390)
	<u>7,222,434</u>	<u>3,811,053</u>
Increase in working capital	12,311,585	8,736,139
Working capital, beginning of year	24,753,660	16,017,521
WORKING CAPITAL, end of year	<u>\$37,065,245</u>	<u>\$24,753,660</u>
Changes in components of working capital		
Increase (decrease) in current assets		
Cash and deposit certificates	\$11,870,792	\$ 6,875,335
Short-term investments	4,497,548	1,760,372
Accounts receivable		
Algoma Steel Corporation (affiliated company) for ore produced	(3,060,094)	3,253,566
Other	1,692,788	(1,222,672)
Ore inventory	4,583,815	(1,408,490)
Supplies	(358,042)	(221,373)
Prepaid expenses	93,624	18,334
	<u>19,320,431</u>	<u>9,055,072</u>
Decrease (increase) in current liabilities		
Accounts payable and accrued liabilities	444,417	(112,317)
Accrued interest	12,735	10,473
Provision for termination costs	(1,380,000)	—
Income and other taxes payable	(1,219,000)	—
Current instalments of mortgage bond principal	(4,846,937)	(217,089)
Mortgages payable on employee housing	(20,061)	—
	<u>(7,008,846)</u>	<u>(318,933)</u>
INCREASE IN WORKING CAPITAL	<u>\$12,311,585</u>	<u>\$ 8,736,139</u>

(See notes to consolidated financial statements)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1978

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Company have been prepared by management in accordance with generally accepted Canadian accounting principles consistently applied. Except for translation of long-term debt (see Note 1(c)), they are also in conformity, in all material respects, with accounting principles generally accepted in the United States. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximations. These have been made using careful judgement and in the light of information available up to January 26, 1979. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below:

(a) Basis of consolidation

The accompanying statements are drawn up on a consolidated basis to include the accounts of the Company and its subsidiaries, Steerola Explorations Limited, Sanjo Iron Mines Limited and Don Park Homesites Limited (all of which are wholly owned).

(b) Statement presentation of joint venture operations

Under agreements entered into in 1965 certain of the Company's open pit ore reserves at Atikokan were leased to a joint venture participant, The Algoma Steel Corporation, Limited (now an affiliated company), and the Company was appointed operator to mine and process the ore on Algoma's behalf. As in prior years, the 1978 financial statements have been drawn up to reflect in "gross operating revenues" the proceeds received from Algoma for the ore produced, and in "costs and expenses" the full costs of mining and processing the ore.

(c) Exchange translation

The Company's operating revenues and royalty income, which are based on U.S. dollar prices, are reflected in the statement of earnings at their Canadian dollar exchange equivalent for the month in which earned.

U.S. dollar current assets and current liabilities (including First Mortgage Sinking Fund Bonds payable within one year) are translated to Canadian dollars on the basis of year-end exchange rates (U.S. \$1 = Cdn. \$1.1860 at December 31, 1978; U.S. \$1 = Cdn. \$1.0944 at December 31, 1977). At December 31, 1977 U.S. \$6,755,000 of outstanding First Mortgage Sinking Fund Bonds matured beyond one year and were translated at an historical rate, rather than at year-end rates as would have been the case had U.S. translation principles been followed. At December 31, 1978, there were no similar adjustments arising from differences between U.S. and Canadian translation principles since all of the First Mortgage Bonds presently outstanding may become payable within one year (see Note 6) and accordingly are translated at current rates. However, because of the differences in translation methods applicable to long-term debt at the beginning of the year, net income as reported for the year ending December 31, 1978 under Canadian accounting principles is approximately \$468,000 lower than it would have been under U.S. accounting principles. Because of similar differences in translation methods applicable to long-term debt at the beginning and end of 1977, net income as reported for 1977 under Canadian accounting principles is approximately \$621,000 higher than it would have been under U.S. accounting principles.

(d) Depreciation, depletion and amortization

Depreciation is provided on the straight-line basis at rates designed to write off the cost of the related assets over their estimated useful lives. As explained in Note 2, current depreciation charges with respect to plant, buildings and equipment are designed to write off the cost of these assets by the close of mining and pelletizing operations in 1979. Housing assets (which are expected to have a continuing value after 1979) are being written off at an annual rate of 5 per cent.

Depletion of mining properties, and amortization of deferred development expenditures, are provided on the basis of tons of ore produced (including royalty tonnage — Note 3) in relation to the estimated assured ore reserves from which production or royalty revenue is expected to be received in the period to December 31, 1979. (See Note 2).

Deferred overburden removal costs are charged to production on the basis of tons of ore mined, and at a rate which will amortize such costs by the close of operations in 1979.

2. CESSATION OF OPERATIONS AT ATIKOKAN

As previously announced, the Company will be forced to cease current operations at Atikokan during 1979. Since January 1, 1975, depreciation, depletion and amortization charges have been accelerated with a view to having the mining properties, plant and deferred development expenditures at Atikokan written off by the close of mining and pelletizing operations in 1979.

Since 1975 the Company has also been making annual provisions of \$157,168 to cover certain amounts payable to Ontario Hydro after 1979 (see Note 8(b)) which would not be recoverable from sales revenues. As a result of detailed studies carried out in 1978 the Company has identified a number of other termination costs that are likely to arise in 1979 which will similarly not be recoverable from sales revenues, and the 1978 accounts include a provision of \$1,380,000 in respect thereof.

3. ROYALTY INCOME

The Company's "C" orezone is leased to Caland Ore Company Limited in consideration for the payment of annual royalties by Caland based on a percentage of the market value of ore produced. For the years 1972-1978 inclusive the lease agreement specified a minimum of 2,000,000 tons annually on which royalties were payable, which minimum tonnage was subject to further adjustment under certain circumstances as specified in the agreement. As a result of a notice to terminate the lease agreement at the end of 1979 having been properly served by Caland, the minimum royalty normally payable for 1979, the final year of operations, is reduced from 2,000,000 tons to 1,000,000 tons.

In last year's report reference was made to certain differences that had arisen between the Company and Caland regarding the method of calculating adjustments to the minimum royalty for the years 1975, 1976 and 1977. The two companies have now agreed to resolve these differences by increasing the minimum royalty tonnage for 1979 from the figure of 1,000,000 tons mentioned above to 1,111,321 tons.

4. MINING PROPERTIES AND RELATED DEFERRED EXPENDITURES

(a) Mining properties at Atikokan are carried at purchase cost of \$2,459,456 plus a valuation adjustment made in 1943 of \$1,926,937, for a total of \$4,386,393. Depletion provided to December 31, 1978 totals \$4,266,346.

(b) Deferred overburden removal costs represent the unamortized balance of stripping costs relating to the joint venture mining operations referred to in Note 1(b). The changes in this account during 1978 and 1977 may be summarized as follows:

	1978	1977
Balance deferred, beginning of year	\$ 8,407,254	\$ 9,100,950
Add stripping expenditures during current year	7,770,475	10,457,558
	16,177,729	19,558,508
Deduct amount charged to production on basis of tons of ore mined	13,742,707	11,151,254
Balance deferred, end of year	\$ 2,435,022	\$ 8,407,254

(c) Changes in deferred development expenditures during the year were as follows:

	Atikokan	Lake St. Joseph	Bending Lake
Balance, December 31, 1977	\$2,744,230	\$1,385,999	\$696,373
Expenditures (recoveries) during year	—	(1,791)	102,119
	2,744,230	1,384,208	798,492
Deduct			
Amortization (Note 1(d))	1,802,065	—	—
Interest acquired by joint venture participant (see below)	—	200,000	—
Balance, December 31, 1978	\$ 942,165	\$1,184,208	\$798,492

Deferred development expenditures relating to Atikokan represent the remaining unamortized balance of preproduction expenditures incurred with respect to the properties presently being mined by the Company and Caland Ore Company Limited.

Deferred development expenditures relating to Lake St. Joseph represent accumulated expenditures (net of recoveries and prior years' write-offs) incurred in connection with the Company's

Lake St. Joseph claims. Under the joint venture arrangements referred to in Note 1(b) the joint venture participant was entitled to acquire eventual ownership of certain of these claims in consideration for \$500,000, the rate of acquisition of such ownership interest being determined by the relationship between the volume of ore shipped under the main contract to any point of time and the total tonnage covered by the contract. At December 31, 1977 the equity interest earned by the joint venture participant under this formula was approximately 60 per cent, and accordingly of the total sum of \$500,000 (all of which had been received), \$300,000 had been credited against the Lake St. Joseph deferred development expenditures, and the balance was carried on the balance sheet as "Advance payments received on sale of interest in mining properties". As part of the termination arrangements relating to the closure of operations in Atikokan in 1979, Steep Rock is to be relieved of any obligation to complete the production of additional tonnage under the terms of the contract, and the joint venture participant will be granted the full ownership rights on those claims to which it would otherwise have become entitled had it been possible to fulfill the total contract tonnage. Accordingly the remaining balance of \$200,000 referred to above has been credited against Lake St. Joseph deferred development expenditures.

The deferred development expenditures relating to Bending Lake represent the amounts expended by the Company to December 31, 1978 with respect to the possible development of an iron oxide deposit located approximately 40 air miles from Atikokan. Feasibility studies have been conducted jointly with Algoma Steel and Canadian Pacific Investments Limited. The Company has an option to lease the claims from the present owner upon payment of \$1,500,000 (in five annual instalments) and future royalties based on production. This option, which was originally scheduled to expire at the end of 1978, has been extended, on an annual basis, for a three-year term, to December 31, 1981, upon a payment in advance for each year. The payment for the year 1979 has been made as required.

In view of the current iron ore surplus and other economic factors the Company has no plans to proceed with the development of either the Lake St. Joseph properties or the Bending Lake property at this time. The development of these properties at some future date will be dependent on market and economic conditions.

5. INVESTMENT IN OTHER MINING COMPANY

The amount of \$116,483 represents the book value of the Company's 11 per cent share interest in International Iron Ores Limited, a company which either directly, or through a subsidiary, holds exploration permits (expiring in 1987) covering certain iron oxide deposits on the west side of Ungava Bay. The Company believes the deposits still have a long-term development potential. However, since no substantial development work at the properties has been carried out for some years, the Company decided in 1978 to write down the cost of the investment by \$115,000, thereby reducing the carrying value to the amount of \$116,483 shown above.

6. MORTGAGE BONDS AND DIVIDEND RESTRICTIONS

The trust indenture relating to the First Mortgage Sinking Fund Bonds (as amended in 1971 and 1973) requires fixed principal repayments of U.S. \$2,548,000 on December 1 of each year, together with additional principal payments (calculated at the rate of U.S. \$1.41 per ton) to the extent that shipments of pellets to the joint venture participant in any twelve month period ending September 30 exceed 1,100,000 tons.

The decision to terminate operations at Atikokan in 1979 may result in the remaining principal instalments of the bonds becoming due and payable in 1979. For this reason the outstanding balance at December 31, 1978 of U.S. \$6,438,000 is included with current liabilities.

The trust indenture, which contains specific mortgage and floating charge provisions, also imposes certain restrictions on the payment of dividends and the reduction or redemption of capital stock. The effect of such restrictions (which are calculated by reference to consolidated working capital and consolidated net income accumulated since January 1, 1970) would be to restrict the balance of retained earnings available for dividends at December 31, 1978 to approximately \$11.6 million.

7. INCOME TAXES

In 1978 the Company refiled certain of its prior years' income tax returns in order to maximize various tax allowances under present circumstances. This had the effect of increasing the amount of prior years' write-offs available as income tax deductions in the current year, and the resulting tax credit of \$2,373,000 is shown as an extraordinary item in the consolidated statement of earnings. The amount of prior years' write-offs remaining for carry forward against future years' income is estimated at approximately \$1,900,000. The portion of such amount claimable in any given year is subject to the maximum deductible for that year under capital cost allowance regulations.

8. COMMITMENTS AND CONTINGENT LIABILITIES

(a) The Company's unfunded past service pension obligation at December 31, 1978 (all of which relates to the non-contributory plan for the Company's unionized employees) is estimated at \$112,589. Under its collective agreement with such employees the Company is required to continue contributions into the pension fund in amounts sufficient to fully provide for all benefits accrued to date of termination of its operations in 1979. The Company expects that its normal pension contribution in 1979, together with the interest currently being earned on pension fund assets, will be sufficient to cover this obligation. Total pension contributions under the non-contributory plan and the salaried employees' retirement plan amounted to \$75,561 in 1978 and \$117,728 in 1977. The decrease in 1978 pension expense results primarily from the utilization of a surplus in the non-contributory and the salaried plan (as indicated by actuarial revaluation) to cover current service contributions.

(b) Under an agreement dated March 15, 1949 relating to the diversion of the Seine River, the Company is committed to make payments to Ontario Hydro of \$92,357 annually until November 1, 1989. As indicated in Note 2, the Company has been making annual provisions of \$157,168 since 1975 in respect of amounts payable in years following the cessation of operations in 1979, and the present value of such future payments is now covered by the non-current provision for termination costs carried on the balance sheet.

(c) The Company is committed under certain outstanding sale agreements to repurchase houses, the maximum commitment at December 31, 1978 being estimated at approximately \$274,000.

(d) Annual rentals under equipment leases presently in effect amount to \$491,345 in 1979; \$120,748 in 1980; \$102,258 in each of the years 1981 to 1984 and \$8,521 in 1985. There are no lease commitments extending beyond 1985. Upon termination of operations in 1979 the Company believes that the disposal or sub-leasing value of the equipment at that time should be as great as the remaining lease payments required. In addition the Company leases its data processing equipment at an annual cost of approximately \$43,000. This lease can be terminated upon 90 days' notice by either party. The total leasing costs charged against 1978 operations amounted to \$766,000 (\$799,000 in 1977).

9. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The aggregate direct remuneration of directors and senior officers amounted to \$415,654 in 1978 (\$384,195 in 1977).

AUDITORS' REPORT

TO THE SHAREHOLDERS OF
STEEP ROCK IRON MINES LIMITED

We have examined the consolidated balance sheet of Steep Rock Iron Mines Limited as at December 31, 1978 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

THUNDER BAY, CANADA,
JANUARY 26, 1979.

CLARKSON, GORDON & Co.
CHARTERED ACCOUNTANTS

10 YEARS IN REVIEW *

	1978	1977	1976	1975	1974	1973	1972	1971	1970	1969
	(Thousands of Dollars)									
Income										
Gross operating revenues ..	40,096	38,255	31,082	22,741	21,628	19,620	18,730	18,330	17,967	17,624
Royalty income	7,082	4,916	5,391	3,543	3,683	3,335	2,968	4,937	4,935	3,924
Investment income	2,343	1,034	402	534	769	563	423	434	480	473
Gain on fixed asset disposals	33	13	90	94	6	76	—	—	—	80
	<u>49,554</u>	<u>44,218</u>	<u>36,965</u>	<u>26,912</u>	<u>26,086</u>	<u>23,594</u>	<u>22,121</u>	<u>23,701</u>	<u>23,382</u>	<u>22,101</u>
Costs and expenses										
Operating costs, etc.	34,563	31,859	28,989	22,051	19,839	18,229	16,247	14,991	14,597	12,554
Interest	628	777	881	1,022	1,154	1,331	1,474	1,707	1,888	2,066
Depreciation, depletion and amortization	7,124	7,016	6,910	6,361	3,780	3,592	3,584	3,789	4,096	4,311
	<u>42,315</u>	<u>39,652</u>	<u>36,780</u>	<u>29,434</u>	<u>24,773</u>	<u>23,152</u>	<u>21,305</u>	<u>20,487</u>	<u>20,581</u>	<u>18,931</u>
Earnings (loss) before income taxes and extraordinary items	7,239	4,566	185	(2,522)	1,313	442	816	3,214	2,801	3,170
Income taxes	3,580	1,813	115	—	510	—	78	1,145	990	1,304
Earnings (loss) before extraordinary items	3,659	2,753	70	(2,522)	803	442	738	2,069	1,811	1,866
Extraordinary items										
Income tax credit arising from carry forward of prior years' write-offs	2,373	1,813	115	—	510	48	78	1,145	372	—
Exchange credits less exchange losses (net of related tax)	—	—	—	—	—	—	—	—	1,300	—
Gain (provision for loss) on investments	—	—	—	(352)	—	—	—	—	545	(452)
Write-off of land and plant facilities no longer required (net of related tax)	—	—	—	—	—	—	—	—	(483)	—
Write-off of deferred development expenditures (net of related tax)	—	—	—	—	—	—	—	—	—	(35,448)
Special payment received from Ontario Hydro (net of related tax)	—	—	—	—	—	291	—	—	—	—
	<u>2,373</u>	<u>1,813</u>	<u>115</u>	<u>(352)</u>	<u>510</u>	<u>339</u>	<u>78</u>	<u>1,145</u>	<u>1,734</u>	<u>(35,900)</u>
Net earnings (loss)	6,032	4,566	185	(2,874)	1,313	781	816	3,214	3,545	(34,034)
Per share										
Earnings (loss) before extraordinary items	0.45	0.34	0.01	(0.31)	0.10	0.05	0.09	0.26	0.22	0.23
Net earnings (loss)	0.75	0.57	0.02	(0.36)	0.16	0.10	0.10	0.40	0.44	(4.22)
Dividends	—	—	—	—	—	—	0.15	0.15	0.15	0.15
Iron ore and pellets										
Tons (000)										
Sales	1,324	1,432	1,313	1,065	1,362	1,442	1,469	1,415	1,501	1,563
Royalty ore	1,996	1,622	1,985	1,358	1,937	2,000	1,922	3,000	3,000	2,225
Total tons	3,320	3,054	3,298	2,423	3,299	3,442	3,391	4,415	4,501	3,788

* 1969 results have been restated to give effect to retroactive changes in depletion, depreciation and deferred income taxes and to certain changes in revenue and expense classifications.

Revegetation of waste dumps and other disturbed areas is part of Steep Rock's ongoing environmental and termination programs.

This photo shows Hark Savinsky, a forestry student hired by Steep Rock, examining the excellent growth of clover and grass on the concentrator tailings test plot.

PHOTO BY R. O. STARK



